

Fund Accounting

General Fund

Fund Purpose

The General Fund exists to account for the activity associated with traditional local government services such as police, fire, parks and recreation, planning and economic development and general City administration. Under Arizona State law, each city and town must maintain a General Fund and account for Highway User Revenues (see the Transportation Fund in the Special Revenue Fund section). The General Fund is the largest fund and is typically the fund of most interest and significance to citizens.

General Fund Revenues and Transfers-In

General Fund resources include both revenues and transfers-in from other fund types such as the Special Revenue, Enterprise and Internal Service Funds. Revenue and transfers-in determine Scottsdale's capacity to provide program services to our citizens. The major resources, which fund the program operating budget, debt service and capital projects, are identified below.

Local Tax Revenues

Local Tax Revenues are the fund's largest category of revenue source. With the exception of property taxes, these are all "elastic" revenues, meaning they vary directly with the economy – during economic expansion, elastic tax revenues increase, due to higher levels of consumer spending and tourism activity. During an economic downturn, the opposite is true and tax revenue levels decline. Local Taxes Revenues consist of the following:

Privilege Tax (Sales) represents the General Fund's 1.0 percent General Fund share of the City's total 1.65 percent sales tax that is available for any municipal purpose. The remaining 0.65 percent of the tax has dedicated uses and is allocated as follows: General Fund (Public Safety .10% - see below), Special Revenue Fund (Transportation .20%) and Special Revenue Funds (McDowell Sonoran Preserve (.35%). The tax is the City's single largest revenue source. This revenue also includes sales tax application and penalty fees. It is also the General Fund's single largest revenue source, and the General Fund portion of the tax is used to pay for general governmental operations and the repayment of excise debt.

Privilege Tax (Sales) - Public Safety represents the .10% of the 1.65% sales tax rate dedicated exclusively to public safety enhancements. The voters approved the .10% increase in the sales tax for public safety in May 2004.

Property Tax (Primary) represents the General Fund's portion of the Primary Property Tax which is levied on the assessed value of all property within the City to help pay for City general governmental operation costs. By Arizona State Statute, the primary property levy is limited to a 2.0 percent increase per year, plus an allowance for annexations and new construction. Another component of the primary property tax accounts for the reimbursement to the City for the cost of liability claim judgments as allowed by State Statute. This component becomes revenue to the City's Self-Insurance Fund and will be discussed more fully in the Internal Service Funds section.

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Transient Occupancy Tax (“Bed”) comes from the City collecting a 3.0 percent Transient Occupancy Tax on hotel and motel room rentals in addition to the sales tax. Per City Ordinance 2045/2291 (amended), 80 percent of this tax revenue is restricted for tourism and hospitality purposes and pays for contracts to increase tourism and debt service for destination attractions. Therefore, 80 percent of this revenue is reflected in the Special Revenue – Special Programs Fund. The remaining 20 percent may be used for general government operations and is accounted for in the General Fund.

Stormwater Quality Charge Revenue relates to the water quality charge to help pay a portion of the City’s Stormwater Management program costs. These costs are driven by “unfunded” federal mandates that require the City to operate under a National Pollution Discharge Elimination System (NPDES) permit and to address the quality of stormwater runoff.

Other Taxes — Light & Power and Cable TV Franchise, In-Lieu Property Tax and Fire Insurance Premium include franchise taxes charged on revenues from utility companies and cable companies for use of City right-of-ways, an in-lieu property tax for municipal utilities, and a fire insurance premium tax, which is used to help supplement fire protection service costs.

State-Shared Tax Revenues

State-Shared Tax Revenues include the state sales tax, income tax collections, and auto lieu tax, which are shared with all cities and towns throughout the state. The formula for distribution of the sales and income tax revenue is based upon the relation of the City’s population to the total state population. Under this distribution method, mature cities reaching build-out will see their portion of state-shared tax revenues decrease, as rapidly growing cities receive a greater share of the revenue distribution. A mid-decade Special Census will likely have an adverse impact on the City’s share, as faster growth cities and towns within the region receive an increased proportion of the overall pool of state-shared revenues.

The State Department of Revenue collects and distributes funds and provides revenue forecasts to cities and towns for these revenue sources. The auto lieu tax is shared based on the City’s population in relation to the total incorporated population of Maricopa County.

State-Shared Revenues consist of the following:

State Shared Sales Tax Cities and towns share in a portion of the 5.0% sales tax collected by the State – the State retains 50.0%, schools are designated to receive 40.0%, and the remaining 10.0% is allocated to cities and towns based on percentage of population.

State Revenue Sharing (Income Tax) There is a two-year lag between the time citizens earn and report results to the State and then the State submits the actual revenues to cities and towns. Cities and towns in Arizona are prohibited from levying an income tax; however, they are entitled to 15.0 percent of state income tax collections from two years previous.

State Auto Lieu Tax is part of the vehicle license fees collected by Maricopa County, but is actually a State revenue source. The City receives its share of the vehicle license tax collection based on its population in relation to the total incorporated population of Maricopa

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County. The only stipulation on the use of this revenue is that it must be spent on a public purpose. The City has designated these tax proceeds for transportation services.

Licenses, Permits & Fees Revenues

Licenses, Permits & Fees Revenues include revenue from various business licenses, all fees recovered as a part of the development process, recreation fees and WestWorld facility event revenue. In accordance with Scottsdale's financial policy, all fees and charges are reviewed annually.

Licenses, Permits & Fees Revenue consist of the following:

Development Permits & Fees include fees assessed to developers/builders that recover the cost of four primary functions: 1) reviewing/processing development applications, 2) plan review of construction documents, 3) the issuance of building, electrical, mechanical and plumbing permits, and 4) the inspection of buildings/structures in the construction phase.

Business Licenses & Fees include the licensing of business activity that takes place in Scottsdale and the associated fees relating to the licensure and regulation of specific activity.

Recreation Fees include revenue from the various recreational programs, classes, and entry fees.

WestWorld Fees include event revenue (general facility rental, concessions, parking fees, etc.) from events such as horse shows, auto auctions & car shows, consumer & home shows, as well as RV Space rental income.

Fines and Forfeiture Revenues

Fines and Forfeiture Revenues include court, parking, photo radar, and library fines. The detail of these revenues is noted below:

Court Fines are the general fund portion of penalties or fees assessed by state statute, city ordinance or the Judge. Examples include: fines, a portion of the registration fee to attend Defensive Driving school, bonds forfeited to the City and collection fees.

Parking Fines are the general fund portion of parking fees assessed per City ordinance.

Photo Radar Revenue is the general fund portion of Photo Radar penalties as assessed by the Presiding Judge. Examples include: red light and speeding fines and a portion of the registration fee to attend Defensive Driving school.

Library Fines are monies collected when library materials are returned after they are due, are lost, or are damaged.

Interest Earnings

Interest Earnings are generated on idle General Fund cash balance throughout the year. This revenue is a function of the relationship between the City's available cash balance and the interest rate. The City earns interest on idle funds through various investment vehicles in accordance with Arizona Revised Statutes and City Ordinance. The City's investment policy stresses safety above yield and allows investments in U.S. Treasury and Agency obligations, certificates of deposit, commercial paper, bankers' acceptances, repurchase agreements,

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money market funds, and the State of Arizona's Local Government Investment Pool. Interest earnings applicable to bond proceeds and the Capital Improvement Plan (CIP) accrue to the CIP budget and are not included in General Fund revenues.

Property Rental Revenues

Property Rental Revenues are rental fees on facilities such as the Scottsdale Stadium, as well as amounts received from the Tournament Players Club and Princess Hotel for percent of revenue on gross sales agreements.

Other Revenue

Miscellaneous Revenue includes various miscellaneous revenues the City receives during any given year that are not attributable to one of the specific revenue categories noted above.

Transfers-In

Transfers-In essentially represents the reimbursement of cost incurred for services (i.e., utility billing, payroll processing, benefits administration, etc.) provided and paid by the General Fund on behalf of the Enterprise Fund. The cost of the services provided by the General Fund is allocated annually to these user funds on a rational and equitable basis.

General Fund Expenditures By Expenditure Type

The General Fund expenditures are presented by the following five major expenditure categories: personal services, contractual services, commodities, capital outlay, and debt service. Additionally, there are transfers-out to other funds.

Personal Services include the salaries and wages paid to employees, plus the City's contribution for fringe benefits such as retirement, social security, health, and workers' compensation insurance.

Contractual Services include expenditures for services performed by firms, individuals, or other City departments. Supplies are not included in the contractual services account.

Commodities are expendable items purchased through the City-approved centralized purchasing process. This classification includes supplies, repair and replacement parts, small tools, and maintenance and repair materials that are not of a capital nature.

Capital Outlay includes the purchase of land, the purchase of construction of buildings, structures, and facilities of all types, plus machinery and equipment. To qualify as capital outlay, an item must have an estimated useful life of more than one year, typically have a unit cost of \$5,000 or more, and be a betterment or improvement.

Debt Service is paid from the General Fund, is primarily contractual debt related to sales tax development agreements, and will vary based on the actual sales tax collections at each developed site.

Transfers-Out is the authorized movement of cash or other resources to other funds, divisions, departments, and/or capital projects.

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General Fund Balance/Reserves/Operating Contingency

Fund Balance/Reserves/Operating Contingency protects the City's financial condition and provides for unexpected economic challenges. Growth of fund balance occurs when revenues exceed expenditures. Fund balances are similar to a company's net equity (assets less liabilities) and should only be used for nonrecurring (non-operational) expenditures, since once they are spent they are only replenished by future year resources in excess of expenditures.

The City's budget planning and adopted financial policies call for the establishment of reserves and an operating contingency as part of the resource allocation/limit setting process. The process allows the City to "set aside savings" before it is allocated or spent as budgeted expenditures. The specific make-up of City's fund balance, reserves and operating contingency are noted below.

General Fund Reserve continues the City's adopted financial policy of setting aside a reserve to protect Scottsdale in times of emergency. This is the City's "savings account," and it is important to note that most of these funds are from "carry over", and once they are spent it will be difficult, if not impossible, to rebuild the reserve. It is financially prudent to have a minimum General Fund Reserve of 10 percent of the General and Highway User Revenue Funds total annual operating costs. Maintaining the General Fund Reserve is very important to the municipal credit rating agencies and in retaining the City's triple AAA bond ratings. It should be noted that the revenue sources that help build the General Fund Reserve during good economic times are considered "elastic" and, therefore, are subject to downturns during recessionary times.

Tourism Reserve is to account for the balance of the 80 percent of the Transient Occupancy Tax ("Bed") revenue restricted for tourism and hospitality purposes.

Economic Investment is set aside by the City Council for strategic economic development investments that demonstrate economic returns to the community.

Operating Contingency is used to meet unforeseen emergencies during the fiscal year.

Open Purchase Order Reserves and Liabilities Reserves provides funding source for these year-end carryover budget expenditures and liabilities reserves.

Unreserved Fund Balance is the remainder after considering all of the other reserves/uses. This balance represents an accumulation of one-time revenues and is most appropriately used for one-time expenditures, such as capital project funding. Under prudent fiscal management practices, this amount should not be used to fund new or expanded programs with ongoing operating expenses.

Special Revenue Funds

Description

The City uses four separate Special Revenue Funds to account for the activity of restricted revenues and designated expenditure uses for FY 2005/06. The individual funds are: Transportation, Preservation Privilege Tax, Special Programs, and Grants. The applicable specific revenues, expenditures and fund balances of the individual Special Revenue Funds, along with each fund's purpose, are described below:

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Transportation Fund

Fund Purpose

The Transportation Fund receives and expends the City's allocation of the Arizona Highway User Revenue Tax (HURF) as well as the City's Transportation Sales Tax (.20%) revenue and other transportation related revenues. The amount of HURF available to each City is allocated based on population, which is determined by the latest federal census. These monies must be used for street construction, reconstruction, maintenance, or transit. The State of Arizona requires the City to establish and maintain an accounting for Highway User Revenue funds. The fund also accounts for the 1989, voters approved Transportation Privilege (Sales) Tax (.20%), which is dedicated to funding transportation improvements and operations. The budget assumes a policy change that transfers 50% of the Transportation Privilege (Sales) Tax to the Capital Improvement Fund for transportation related capital improvement projects.

Transportation Fund Revenues and Transfers-In

Highway User Revenue Tax ("Gas Tax") is distributed by the State of Arizona based upon the population of each city and the county of origin for the sales of fuel. The State constitution requires that all highway user revenue be used solely for street, highway or transit purposes. The cities share in the State collected highway, user revenues, based half on population and half on the origin of the gas sale.

Transportation Privilege Tax (Sales) (.20%) represents the .20% of the City's sales tax dedicated solely to transportation. Please note there is a difference between the transportation and preservation privilege tax revenue amounts, which is attributable to differences in the taxing provisions for each of the revenues.

Local Transportation Assistance Fund (LTAF) Revenue ("State Lottery") is distributed by the State of Arizona based upon population and City and town participation in the lottery. LTAF revenue sharing was capped at a total of \$20.5 million in 1989 by the Arizona state legislature, resulting in no growth in this segment of intergovernmental transportation revenue.

Proposition 400 Regional Sales Tax represents the City's allocation of the 1.0 percent regional sales approved by Maricopa County voters in November 2004 for transportation and transit enhancements.

Transfers-In from the General Fund and the Solid Waste Fund support the Transportation Fund program expenditures.

Transportation Fund Expenditures By Expenditure Type

The Highway User Revenue Fund expenditures are presented by five major expenditure categories: personal services, contractual services, commodities, capital outlay, and debt service plus transfers-out to other funds as noted below:

Personal Services include the salaries and wages paid to employees, plus the City's contribution for fringe benefits such as retirement, social security, health, and workers' compensation insurance.

Contractual Services include expenditures for services performed by firms, individuals, or other City departments. Supplies are not included in the contractual services account.

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Commodities are expendable items purchased through the City-approved centralized purchasing process. This classification includes supplies, repair and replacement parts, small tools, and maintenance and repair materials that are not of a capital nature.

Capital Outlay includes the purchase of land, the purchase or construction of buildings, structures, and facilities of all types, plus machinery and equipment. To qualify as capital outlay, an item must have an estimated useful life of more than one year, typically have a unit cost of \$5,000 or more, and be a betterment or improvement.

Debt Service the debt consists of payment for the Highway User Revenue Bonds along with the applicable annual fiscal agent fees. The Highway User Revenue Bonds are slated to be fully repaid in FY 2006/07.

Transfers-Out is the authorized movement of cash or other resources to other funds, divisions, departments, and/or capital projects. The budget assumes 50% of Transportation Privilege Tax revenue will be transferred annually to the Capital Projects Fund to cover the cost of transportation system improvement operating costs.

Preservation Privilege Tax Fund

Fund Purpose

This fund accounts for the portion of the City's Privilege (Sales) Tax (.35%) dedicated to the purchase of 36,400 acres of land within the McDowell Sonoran Preserve. In 1995, voters approved increasing the City's sales tax rate by (.20%) for the purchase of land within the McDowell Sonoran Preserve. In May 2004, voters approved an additional (.15%) in the City's sales tax rate dedicated to the McDowell Sonoran Preserve land acquisition. As with the 1995 tax, the 2004 tax covers the purchase of land within the preserve plus the construction of essential preserve related necessities such as proposed trailheads.

Revenue collections and contractual debt associated with purchased land are accounted for in this fund. A transfer is made to the Debt Service Fund to pay debt service payments associated with bonds issued for purchases.

Preservation Privilege Tax Fund Revenues

1995 Preservation Privilege Tax (Sales) represents the voter approved .20% of the City's sales tax dedicated to the purchase of 36,400 acres of land within the McDowell Sonoran Preserve. Please note there is a difference between the transportation and preservation privilege revenue tax amounts, which is attributable to differences in the taxing provisions for each of the revenues.

2004 Preservation Privilege Tax (Sales) represents the voter approved .15% of the City's sales tax dedicated to the purchase of 36,400 acres of land within the McDowell Sonoran Preserve plus construction of essential preserve related necessities such as proposed trailheads.

Interest Earnings is a function of the relationship between the available cash balance and interest rate. The City earns interest on idle funds through various investments in ac-

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cordance with Arizona Revised Statutes and City Ordinance. The City's investment policy stresses safety above yield.

1995 Preservation Privilege Tax Fund Expenditures By Expenditure Type

There are no direct operating expenditures in the Preservation Privilege Tax Fund. All of the expenditures in this fund are for debt service on Preserve General Obligation and Revenue Bonds and transfers-out to the Capital Project Fund for land acquisition and construction of essential preserve related necessities such as proposed trailheads.

Special Programs Fund

Fund Purpose

This fund is used to account for dedicated funding sources and donations earmarked for specific purposes. All revenue not expended in the current fiscal year is carried over to the next fiscal year to continue funding the intended purpose.

Special Programs Fund Revenues

Transient Occupancy Tax ("Bed") comes from the City collecting a 3.0 percent Transient Occupancy Tax on hotel and motel room rentals in addition to the sales tax. Per City Ordinance 2045/2291 (amended), 80 percent of this tax revenue is restricted for tourism and hospitality purposes and pays for contracts to increase tourism and debt service for destination attractions. Therefore, 80 percent of this revenue is reflected in the Special Revenue – Special Programs Fund. The remaining 20 percent may be used for general government operations and is accounted for in the General Fund.

Courts Revenue originates from three sources: Court Enhancement, Judicial Collections Enhancement Fund (JCEF) and Fill-the-Gap (FTG). The Court Enhancement is established by Scottsdale City Ordinance 2570 section 9-7.2 and provides funding to enhance the technological, operational, and security facilities of the Court. JCEF and FTG were established by Arizona Revised Statutes (ARS) 12-116 (A) (B) and Senate Bill (SB) 1013, which provide funding for maintaining and enhancing the Court's ability to collect and manage monies.

Downtown Cultural - This account holds funds generated from donations and contributions from private development as outlined in the city's art in private development ordinance (Section 5.083)

Community Arts Trust - This account hold funds that are generated by the lease agreement with the Scottsdale Artists' School at Loloma.

Human Resource Services – Cultural Diversity Revenue includes corporate sponsorship obtained through community outreach efforts in support of cultural programming, including the Cross-Cultural Communication Series and the Hispanic Heritage Community celebration. Police Revenue includes money from the following five sources: (1) Racketeering Influenced Corrupt Organization (RICO) funds, which is only to be used for law enforcement purposes; (2) Forensic Services Intergovernmental Agreements (IGA) with surrounding communities for full cost recovery of crime laboratory services provided; (3) donations for the Mounted Unit and Family Advocacy Center; (4) drug conviction assessments, which may only be used for crime laboratory analysis purposes; and (5) funds for school resource education supplies.

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Community Services Revenue includes donations and contributions that are to be spent for the specific purpose indicated by the donors. Specific purposes include enhancing parks, libraries and human services, providing memorials, covering the expenses associated with special events, providing funds to community support agencies (Scottsdale Cares), and maintaining and operating the train, carousel, and park facilities at the McCormick-Stillman Railroad Park. This revenue also includes McCormick-Stillman Railroad Park revenue generated from the operations of the train and carousel owned by the Scottsdale Railroad and Mechanical Society.

Citizen and Neighborhood Resources Revenue includes 50 percent of the total amount of fines collected for code enforcement violations. The proceeds from the fines are used to pay for any property abatement procedures necessary to clean up a property and a lien is placed on the property if the owner does not pay the City's cost of the clean up.

Planning and Development Services Revenue originates from the Green Building Program fees. The Green Building Program is a whole-systems approach utilizing design and building techniques to minimize environmental impact and to reduce the energy consumption of a building while contributing to the health of its occupants. The program fees are used to fund promotion, education, and public outreach to pro-actively campaign for environmentally responsible buildings in the City.

Fire includes donations and contributions that are to be used for the specific purpose indicated by the donors. Categories include public education support, equipment acquisition, and fire station enhancements.

Transfers-In from the General Fund are budgeted for the Affordable Housing program in Citizen and Neighborhood Resources, which is used as a local grant match to leverage federal and state housing grant funds, and for the preservation and maintenance of properties on Scottsdale's Historic Register. Additional General Fund transfers-in the Special Programs Fund include funding for neighborhood preservation managed by the Preservation program and the balance of the Tourism Fund, which is based on an internal audit recommendation.

Special Program Fund Expenditures

NOTE: As a general practice, all Special Program Fund expenditures reflected in the budget are equal to 100% of the beginning fund balance plus any anticipated revenues. This practice creates maximum budget flexibility and to reduces the likelihood of using contingency. The Transient Occupancy Tax ("Bed Tax") is an exception to this practice, as the Bed Tax ending fund balance tends to be larger and therefore is not budgeted until specific needs are identified. The ending fund balances is carried forwarded to future periods.

Transient Occupancy Tax ("Bed") Expenditures per City Ordinance 2045/2291 (amended) the use of this funds is restricted for tourism and hospitality purposes and pays for contracts to increase tourism and debt service for destination attractions.

Courts Revenue Expenditures include the following specific uses:

Enhancements to the Court's technological, operational, and security facilities, as allowed under the Court Enhancement established by Scottsdale City Ordinance 2570 section 9-7.2.

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Maintenance and enhancement of the Court's ability to collect and manage monies, as allowed by Judicial Collections Enhancement Fund (JCEF) and Fill-the-Gap (FTG) established by Arizona Revised Statutes (ARS) 12-116 (A) (B) and Senate Bill (SB) 1013.

Downtown Cultural/Community Arts Expenditures is generated from donations and contributions as well as revenue from the Scottsdale Artist School lease agreement.

Human Resource Services – Cultural Diversity Expenditures support cultural programming, including the Cross-Cultural Communication Series and the Hispanic Heritage Community celebration.

Police Expenditures include the following specific uses:

Racketeering Influenced Corrupt Organization (RICO) funds may only be used for law enforcement purposes.

Crime laboratory services expenditures incurred by the City on behalf of surrounding communities. The City recovers the full cost of the crime laboratory services through Forensic Services Intergovernmental Agreements (IGA).

Mounted Unit, Family Advocacy Center and school resource education supplies, as specified by the donor.

Crime laboratory analysis, as outlined in drug conviction assessments.

Community Services Expenditures are based on the specific purpose indicated by the donors. Specific purposes include enhancing parks, libraries and human services, providing memorials, covering the expenses associated with special events, providing funds to community support agencies (Scottsdale Cares), and maintaining and operating the train, carousel, and park facilities at the McCormick-Stillman Railroad Park.

Citizen and Neighborhood Resources Expenditures are for any property abatement procedures necessary to clean up a property, when an immediate health and/or safety situation exists. If the owner does not pay the City's cost of the clean up, the City then places a lien on the property.

Planning and Development Services Expenditures relate to the promotion, education, and public outreach campaign for environmentally responsible buildings in the City.

Fire Expenditures are spent for the specific purpose indicated by the donors. Categories include public education support, equipment acquisition, and fire station enhancements.

Transfers-Out is the authorized movement of cash or other resources to fund debt service and/or capital projects.

Special Districts Fund

Fund Purpose

This fund is used to account for proceeds received by property owners in return for the City providing agreed-upon increased levels of municipal services beyond the standard level of core City services. More specifically, the fund is used to account for the City's street light districts. All

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revenue not expended in the current fiscal year is carried over to the next fiscal year to continue funding the intended purpose.

Special District Fund Revenues

Street Light District Revenue represents the levy assessed on property owners within each of the City's more than 350 street light districts.

Downtown Enhanced Municipal Services District (EMSD) Revenue represented the levy assessed on property owners within the City's downtown area. On May 17, 2005, City Council voted to remove the EMSD designation from the downtown area and eliminate the assessment.

Special District Fund Expenditures By District

Street Light District - fund will be used solely for contractual services.

Downtown Enhanced Municipal Services District - fund was used solely for contractual services. On May 17, 2005, City Council voted to remove the EMSD designation from the downtown area and eliminate the assessment.

Grant Fund

Fund Purpose

This fund receives and expends the City's federal, state, and local grant revenues. The amount of grants received is generally based upon application to granting agencies by the City and upon availability of funding by the grantors. Grant revenues may be used only for the stated purpose in the approved grant agreement and are subject to grantor expenditure guidelines and audits. The City will only expend grant funds that have been appropriately awarded by the granting agency and accepted by City Council in a public meeting.

The City aggressively seeks grant funding to leverage City funds to address priority program and service needs. The major areas of the grant revenue budget are noted below:

Grant Fund Revenues by Grant Area

Community Development Block Grants (CDBG) and Section 8 Grants are awarded annually by the U.S. Department of Housing and Urban Development (HUD) upon application for funding by the City. These grant revenues may only be used for those projects specifically approved in the grant application and are subject to agency expenditure guidelines and audits.

Home Grants are received from the Maricopa County Home Consortium and are to be used to provide affordable housing, expand the capacity of non-profit housing providers, strengthen the ability of local governments to provide housing, and leverage private-sector participation in housing.

Miscellaneous Federal & State Grants include grants for law enforcement and library projects.

Grant Fund Expenditures By Grant

Information on Grant Fund expenditures is noted below:

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Community Development Block Grants (CDBG) and Section 8 Grants are used for social and housing services for the elderly, disabled and low-income families.

Home Grants – these budgeted expenditures are to be used to provide affordable housing, expand the capacity of non-profit housing providers, strengthen the ability of local governments to provide housing, and leverage private-sector participation in housing.

Miscellaneous Federal & State Grants are typically used for the purchase of equipment and services related to the Police Department, Community Services and Water Resources.

Debt Service Fund

Fund Purpose

This fund accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest not serviced by the proprietary funds, with the exception of General Fund. The General Fund includes Contracts Payable for contractual debt related to sales tax development agreements, and will vary based on the actual sales tax collections at each development site. The applicable specific revenues, expenditures, and fund balance of the Debt Service Fund are described below:

Debt Service Fund Revenues and Transfers-In

Property Tax (Secondary) represents the portion of the property tax that is exclusively limited to pay debt service by Arizona State Statute. While the growth is unlimited, the City's use of this portion of the property tax is restricted by State Statute to solely pay debt service on voter approved general obligation bonds. The debt service for bonds already issued, plus estimated debt service for bonds planned to be issued within the budgeted fiscal year, is levied.

Special Assessment Revenue results from billings to the property owners within an Improvement District. Districts are formed when owners desire improvement to their property, such as roads, water lines, sewer lines, streetlights, or drainage. The expenditure of funds to construct the specific capital improvements and to pay the debt service on bonds is appropriated as part of the City's budget; however, the debt service is repaid by the property owners through a special assessment on their improved property. Improvement District debt will be permitted only when the full cash value of the property, as reported by the Maricopa County Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3:1 prior to issuance of debt and 5:1 or higher after construction of improvements. Should the full cash value to debt ratio not meet the minimum requirements, property value may be determined by an appraisal paid for by the applicant and administered by the City. In addition, per adopted financial policy, the City's cumulative improvement district debt will not exceed 5.0 percent of the City's secondary assessed valuation. Bonds issued to finance improvement district projects will not have maturities longer than ten years.

Maricopa County Stadium Districts (MCSO) contributions are derived from a \$2.50 surcharge on car rentals in Maricopa County. The revenue will be used to pay the debt services payments associated with the San Francisco Giants professional baseball practice facility.

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Arizona Sports and Tourism Authority (AZSTA) Revenue represents the City's contribution from the state tourism sports authority that will be used to pay the debt service payments associated with the Giants professional baseball practice facility.

Spring Exhibition Surcharge represents the ticket surcharge assessed on San Francisco Giants spring training games held in Scottsdale. The surcharge is used to pay for capital projects and debt service related to baseball facilities.

Transfers-In is the authorized movement of cash or other resources from other funds, divisions, departments, and/or capital projects. The transfers-in originate from the General Fund for MPC debt service payments and the Preservation Privilege Tax Fund for the payment of general obligation and revenue bond debt service.

Debt Service Fund Expenditures

By Debt Type

General Obligation (GO) / Preserve GO Bonds/Preserve GO Bonds – Series 2005/2008 Debt Service – the Preserve GO Bonds represent debt issuances related to land acquisition in the McDowell Mountain Sonoran Preserve. Preserve debt is repaid by a dedicated .20% sales tax authorized by voters in 1995.

Special Assessment Debt Service – Special Assessment Bonds are issued for property owners desiring improvements to their property such as roads, water lines, sewer lines, streetlights, or drainage. The expenditure of funds to construct the specific capital improvements and to pay the debt service on bonds is appropriated as part of the City's budget; however, the debt service is repaid by the property owners through a special assessment on their improved property. The City's debt management policy requires that the full cash value of the property to debt ratio is a minimum of 3:1 prior to issuance of debt and at least 5:1 after construction of the improvements.

Preserve Authority Revenue Bonds Debt Service – the Preserve Revenue Authority Bonds represent prior debt issuances related to land acquisition in the McDowell Mountain Sonoran Preserve. All future preserve debt will be repaid from the dedicated 2004 Preservation Privilege (Sales) Tax (.15%) authorized by the voters on May 18, 2004.

Municipal Property Corporation (MPC) Bonds are issued by the City of Scottsdale Municipal Property Corporation (MPC), a nonprofit corporation created by the City in 1967, solely for the purpose of constructing, acquiring and equipping buildings, structures, or improvements on land owned by the City. A Board of Directors appointed by the City Council governs the MPC. The debt incurred by the corporation is a City obligation and the repayment of debt is financed by pledged General Fund excise taxes.

Enterprise Funds

Description

The City uses three separate Enterprise Funds to account for the activity of this proprietary fund type. The individual funds are Water & Sewer, Solid Waste, and Aviation. In the aggregate, the Enterprise Funds are the City's second largest source of revenues, which are derived from

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user fees and charges. User fees and charges are established to promote efficiency by shifting payment of costs to specific users of services and avoiding general taxation. Moderate rate increases are included as part of this budget to offset increasing operating costs, mandated environmental standard compliance, and pay-as-you-go capital costs attributable to repair and replacement of infrastructure. The applicable specific revenues of the individual funds along with each fund's purpose are described below:

Water & Sewer Funds

Fund Purpose

This fund accounts for the activity related to the City's water and sewer business activity, including operating and debt service payments. Capital Expenditures are accounted for in various CIP funds.

Overview of User Fees

Revenue Policy

Enterprise User Fees rate adjustments are based upon five-year financial plans developed for each operation, and are reviewed annually per Scottsdale's adopted financial policies to meet the stated objectives of:

Equity — charges are borne by the beneficiaries of a project or service;
Level distribution of necessary cost increases — to avoid large rate increases in any one year;
Increasing debt as little as possible — to ensure that the City can meet bond coverage requirements and remain financially healthy;

Rate design — which encourages conservation and efficient use of City resources.

Water & Sewer Funds Revenues and Transfers-In

Water Charges – monthly water billings consist of a base charge according to meter size and a variable charge for the amount of water consumed

Sewer Charges – residential customers are charged a flat fee per month and commercial users are charged based upon water consumption and type of business. Fees are studied annually to determine if they are covering the cost of providing this service.

Effluent Sales – effluent sales relate to the sewage treated to irrigation standards at the City's Water Campus for the 23 golf courses in north Scottsdale that are part of the Reclaimed Water Distribution System and the Gainey Ranch golf course effluent use from that regional wastewater plant. Both are contractual obligations to provide effluent water for irrigation uses and all costs for providing these services are recovered through rates charged for the use.

Interest Earnings are generated on idle Water & Sewer Fund cash balances throughout the year. This revenue is a function of the relationship between the available cash balance and interest rate. The City earns interest on idle funds through various investment vehicles in accordance with Arizona Revised Statutes and City Ordinance. The City's investment policy stresses safety above yield and allows investments in U.S. Treasury and Agency obligations, certificates of deposit, commercial paper, bankers' acceptances, repurchase agreements,

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money market funds, and the State of Arizona's Local Government Investment Pool.

Miscellaneous Revenue – receipts from the Central Groundwater Treatment Facility Superfund site are the primary revenue contributor.

Transfers-In is the authorized movement of cash or other resources from other funds, divisions, departments, and/or capital projects.

Water & Sewer Fund Expenditures By Expenditure Type

The Water & Sewer Fund expenditures are presented by the following five major expenditure categories: personal services, contractual services, commodities, capital outlay, and debt service. Additionally, there are transfers-out to other funds.

Personal Services include the salaries and wages paid to employees, plus the City's contribution for fringe benefits such as retirement, social security, health, and workers' compensation insurance.

Contractual Services include expenditures for services performed by firms, individuals, or other City departments. Supplies are not included in the contractual services account.

Commodities are expendable items purchased through the City-approved centralized purchasing process. This classification includes supplies, repair and replacement parts, small tools, and maintenance and repair materials that are not of a capital nature.

Capital Outlay includes the purchase of land, the purchase or construction of buildings, structures, and facilities of all types, plus machinery and equipment. To qualify as capital outlay, an item must have an estimated useful life of more than one year, typically have a unit cost of \$5,000 or more, and be a betterment or improvement.

Debt Service represents the repayment of general obligation, revenue and MPC bonds along with the applicable annual fiscal agent fees.

Transfers-Out is the authorized movement of cash or other resources to other funds, divisions, departments, and/or capital projects.

Solid Waste Fund

Fund Purpose

This fund accounts for the transactions related to the City's solid waste and recycling business activity, including operating and debt service payments. Capital expenditures are accounted for in a separate Capital Improvement Plan fund.

Solid Waste Fund Revenues

Refuse Collection Charges – Solid Waste Charges are billed monthly for the pickup of solid waste. Residential customers are charged a flat fee per month, while commercial customers are charged based upon the size of the container and the number of pickups per month. In addition, the City also provides roll-off, uncontained service, recycling programs, and household hazardous waste collection.

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Interest Earnings are generated on idle Solid Waste Fund cash balance throughout the year. This revenue is a function of the relationship between the available cash balance and interest rate. The City earns interest on idle funds through various investment vehicles in accordance with Arizona Revised Statutes and City Ordinance. The City's investment policy stresses safety above yield.

Solid Waste Fund Expenditures By Expenditure Type

The Solid Waste Fund expenditures are presented by the following five major expenditure categories: personal services, contractual services, commodities, capital outlay, and debt service. Additionally, there are transfers-out to other funds.

Personal Services include the salaries and wages paid to employees, plus the City's contribution for fringe benefits such as retirement, social security, health, and workers' compensation insurance.

Contractual Services include expenditures for services performed by firms, individuals, or other City departments. Supplies are not included in the contractual services account.

Commodities are expendable items purchased through the City-approved centralized purchasing process. This classification includes supplies, repair and replacement parts, small tools, and maintenance and repair materials that are not of a capital nature.

Capital Outlay includes the purchase of land, the purchase or construction of buildings, structures, and facilities of all types, plus machinery and equipment. To qualify as capital outlay, an item must have an estimated useful life of more than one year, typically have a unit cost of \$5,000 or more, and be a betterment or improvement.

Debt Service represents the repayment of MPC bonds along with the applicable annual fiscal agent fees.

Transfers-Out is the authorized movement of cash or other resources to other funds, divisions, departments, and/or capital projects.

Aviation Fund

Fund Purpose

This fund accounts for the transactions related to the City's aviation business activity at the Scottsdale Airport, which includes operating and debt service payments. Capital Expenditures are accounted for in a separate CIP fund.

Aviation Fund Revenues

Aviation Fees and Charges are for a variety of services provided to airport customers including tie down fees, hangar rentals, fuel sales, and other rental charges.

Interest Earnings are generated on idle Aviation Fund cash balance throughout the year. This revenue is a function of the relationship between the available cash balance and interest rate. The City earns interest on idle funds through various investment vehicles in accordance with Arizona Revised Statutes and City Ordinance. The City's investment policy stresses safety above yield.

Fund Accounting

Transfers-In is related to jet fuel tax collected and receipted in the General Fund and transferred to reimburse the Aviation Fund. This is strictly a tax receipt process and is not a General Fund subsidy to the Aviation Fund.

Aviation Fund Expenditures By Expenditure Type

The direct operating expenditures of the Aviation Fund are divided into the following three major expenditure categories, plus transfers-out:

Personal Services include the salaries and wages paid to employees, plus the City's contribution for fringe benefits such as retirement, social security, health, and workers' compensation insurance.

Contractual Services include expenditures for services performed by firms, individuals, or other City departments. Supplies are not included in the contractual services account.

Commodities are expendable items purchased through the City-approved centralized purchasing process. This classification includes supplies, repair and replacement parts, small tools, and maintenance and repair materials that are not of a capital nature.

Capital Outlay includes the purchase of land, the purchase or construction of buildings, structures, and facilities of all types, plus machinery and equipment. To qualify as capital outlay, an item must have an estimated useful life of more than one year, typically have a unit cost of \$5,000 or more, and be a betterment or improvement.

Transfers-Out is the authorized movement of cash or other resources to other funds, divisions, departments, and/or capital projects.

Internal Service Funds

Description

The City uses two separate Internal Service Funds to account for the activity of this fund type. The individual funds are Fleet Management and Self-Insurance Funds.

Fleet Management Fund

Fund Purpose

This fund is used to account for the expenditures associated with purchasing and maintaining the City's vehicles. Replacement and operation of vehicles are charged to the City departments as internal operating costs to each program based on the quantity and type of vehicle used. The department charges become revenue to the Fleet Management Fund.

Fleet Management Fund Revenues and Transfers-In

Rates - Vehicle Acquisition represents the "rental" rate charged to other City programs sufficient for the acquisition and replacement of City vehicles.

Rates - Maintenance & Operation represents the "rental" rate to other City programs sufficient for the maintenance and operation of City vehicles.

Miscellaneous Revenue represents the proceeds from the sale of surplus property. Interest Earnings Interest earnings are generated on idle Fleet Management Fund cash ba-

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lance throughout the year. This revenue is a function of the relationship between the available cash balance and interest rate. The City earns interest on idle funds through various investment vehicles in accordance with Arizona Revised Statutes and City Ordinance. The City's investment policy stresses safety above yield.

Fleet Management Fund Expenditures By Expenditure Type

The direct operating expenditures of the Fleet Management Fund are divided into the following four major expenditure categories:

Personal Services include the salaries and wages paid to employees, plus the City's contribution for fringe benefits such as retirement, social security, health, and workers' compensation insurance.

Contractual Services include expenditures for services performed by firms, individuals, or other City departments. Supplies are not included in the contractual services account.

Commodities are expendable items purchased through the City-approved centralized purchasing process. This classification includes supplies, repair and replacement parts, small tools, and maintenance and repair materials that are not of a capital nature.

Capital Outlay includes the purchase of land, the purchase or construction of buildings, structures, and facilities of all types, plus machinery and equipment. To qualify as capital outlay, an item must have an estimated useful life of more than one year, typically have a unit cost of \$5,000 or more, and be a betterment or improvement.

Transfers-Out is the authorized movement of cash or other resources to other funds, divisions, departments, and/or capital projects.

Self-Insurance Fund

Fund Purpose

The Self-Insurance Fund is used to account for the City's self-insurance program. Revenue to this fund is derived from charges to user programs. This fund provides coverage of unemployment, self-insured benefits, workers' compensation, and property and liability claims.

Self-Insurance Fund Revenues and Transfers-In

Property Casualty Revenues (Property & Liability Insurance) represent this fund's operating resources, which are derived from internal charges for services to other City funds. These charges are comprised of a self-insurance charge covering general and auto liability/physical damages, workers' compensation, unemployment taxes, and property charges.

Group Health and Dental (Employer/Employee/Retiree/COBRA) represent this fund's operating resources. These charges are comprised of employer, employee, retiree, COBRA participant's, and medical leave conversion contributions, which are used to fund the City's self-insured medical plans.

Interest Earnings are generated on idle Self-Insurance Fund cash balance throughout the year. This revenue is a function of the relationship between the available cash balance and interest rate. The City earns interest on idle funds through various investment vehicles in

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accordance with Arizona Revised Statutes and City Ordinance. The City's investment policy stresses safety above yield.

Property Taxes (Tort Claims) reimburse the City for the actual cost of liability claim judgments paid during the most recently completed calendar year, as allowed by the Arizona Attorney General. Claim judgments are paid from the Self-Insurance Fund – an Internal Service Fund – and therefore, the reimbursement becomes revenue to this fund.

Transfers-In are used to address anticipated rate increases and future actuarially determined funding needs.

Self-Insurance Fund Expenditures By Expenditure Type

The direct operating expenditures of the Self-Insurance Fund are divided into the following three major expenditure categories plus transfers-out:

Personal Services include the salaries and wages paid to employees, plus the City's contribution for fringe benefits such as retirement, social security, health, and workers' compensation insurance.

Contractual Services include expenditures for services performed by firms, individuals, or other City departments. Supplies are not included in the contractual services account.

Commodities are expendable items purchased through the City-approved centralized purchasing process. This classification includes supplies, repair and replacement parts, small tools, and maintenance and repair materials that are not of a capital nature.

Capital Outlay includes the purchase of land, the purchase or construction of buildings, structures, and facilities of all types, plus machinery and equipment. To qualify as capital outlay, an item must have an estimated useful life of more than one year, typically have a unit cost of \$5,000 or more, and be a betterment or improvement.

Transfers-Out is the authorized movement of cash or other resources to other funds, divisions, departments, and/or capital projects.

Trust Funds

Description

This fund is used to account for assets "held in trust" by the City. The City holds the funds in a trustee capacity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 34. All funds not expended in the current fiscal year are carried over to the next fiscal year to continue funding the intended purpose. The City maintains the following two Trust Funds:

Mayor's Committee for Employment of the Handicapped

Fund Purpose

Used to account for proceeds for programs and activities to promote employment of handicapped individuals.

Fund Accounting

Scottsdale Memorial Hospital Redevelopment

Fund Purpose

Used to account for expenditures related to the development of the Scottsdale Memorial Hospital area. It is anticipated that this trust will be fully expended and closed by June 30, 2006.